

EXHIBIT I

INFLATION INDICES

PUBLIC VERSION

**Combined Application of South Carolina Electric & Gas Company for a
Certificate of Environmental Compatibility and Public Convenience and
Necessity and for a Base Load Review Order
Public Service Commission Docket No. 2008-196-E**

1. INTRODUCTION

This **Exhibit I** provides the inflation indices and escalators, and contingency factors used by SCE&G in projecting the capital cost of the two Westinghouse AP1000 Advanced Passive Safety Power Plant (AP1000) units it proposes to construct as V. C. Summer Nuclear Station (VCSNS) Units 2 & 3 (the Units or the Facilities).

2. EXPLANATION OF COST ELEMENTS SUBJECT TO ESCALATION (See Attached Chart A)

Chart A of **Exhibit I** provides the categories of capital investment that have been established for the project. These categories are defined by risk profiles documenting the escalations and contingencies that are applied to base project cash flow. The definitions of these profiles are determined by either contract terms or sound engineering and planning assumptions. Project cash flow is assigned to each risk profile based on common risk characteristics; and escalations and contingencies are applied to generate future cash flow for use in regulatory and planning schedules. Risk profiles are defined below:

- 1) **Fixed with No Adjustment** – These costs are fixed per the EPC Contract and escalation is not applied. Contingency risk for this cash flow is principally related to change orders and is predicted to be relatively low.
- 2) **Firm with Fixed Adjustment A** – These costs have a fixed escalation of a specified percentage applied as part of the EPC Contract. Contingency risk for this cash flow is principally related to change orders and is predicted to be relatively low.
- 3) **Firm with Fixed Adjustment B** – These costs have a fixed escalation of a specified percentage applied as part of the EPC Contract. Under the EPC Contract, this factor is expressed in two parts. One part is an inflation escalator equal to the percentage in item 2 above. The other is a small additional factor that is designated a nuclear industry administration adjustment to compensate Westinghouse for the undertaking the project.

Contingency risk for this cash flow is principally related to change orders and is predicted to be relatively low.

- 4) **Firm with Indexed Escalation** – Escalation for this schedule of costs is applied periodically under the EPC Contract based on the Handy–Whitman All Steam Generation Plant Index, South Atlantic Region. Handy-Whitman is a well recognized and commonly used construction index. The adjustment as billed under the EPC Contract will reflect the percentage increase in the Handy-Whitman All Steam Generation Plant Index, South Atlantic Region as measured between each bi-annual release of the index. For planning purposes, SCE&G is using the most recent one-year index change for 2008, and the most recent five-year average of the index for 2009 and beyond to escalate these costs. Contingency risk for this cash flow is predicted to be relatively low.
- 5) **Actual Craft Wages** – Site craft wages will be paid at actual costs. For planning purposes, SCE&G is using the most recent one–year index change of the Handy–Whitman All Steam & Nuclear Generation Plant Index, South Atlantic Region, for 2008, and the most recent five-year average of this index for 2009 and beyond to escalate these costs. Contingency risk for this cash flow is expected to be higher than average.
- 6) **Non-Labor Costs** – This schedule is paid at actual costs. For planning purposes, SCE&G is using the most recent one-year index change of the Handy–Whitman All Steam & Nuclear Generation Plant Index, South Atlantic Region, for 2008, and the most recent five-year average of this index for 2009 and beyond to escalate these costs. Contingency risk for this cash flow is expected to be moderately high.
- 7) **Time & Materials** – This schedule is paid at actual costs. For planning purposes, SCE&G is using the most recent one–year index change of the Handy–Whitman All Steam & Nuclear Generation Plant Index, South Atlantic Region, for 2008, and the most recent five-year average of this index for 2009 and beyond to escalate these costs. Contingency risk for this cash flow is expected to be moderately high.
- 8) **Owners Costs Target Estimates** – This schedule is paid at actual costs. For planning purposes, SCE&G is using the most recent one-year factor of the GDP Chained Price Index, a commonly used U.S. Government published general escalation index, to escalate 2008 costs. The most recent five-year average of this index is used to escalate costs for 2009 and beyond. Contingency risk for this cash flow is expected to be moderately high.
- 9) **Transmission Costs** – This schedule is paid at actual costs. For planning purposes, the base estimate is escalated based on the most recent Handy–Whitman Transmission Plant Index, South Atlantic Region index, and the most recent five-year average of this index,

is used to escalate costs for 2009 and beyond. Contingency risk for this cash flow is expected to be moderately high.

3. PUBLIC AND CONFIDENTIAL VERSION OF THE INTRODUCTION TO EXHIBIT I AND CHART A TO EXHIBIT I

In response to a claim of confidentiality made by Westinghouse under the provisions of the EPC Contract, SCE&G has prepared public and confidential versions of this introduction to **Exhibit I**, and of **Chart B to Exhibit I**. The differences between the two versions are as follows:

- a. The public version of this introduction to **Exhibit I** does not specify the percentage of the costs under the EPC Contract that fall within the Fixed/Firm pricing category and the additional percentage of cost that Westinghouse and Stone & Webster have agreed to offer for conversion to Fixed/Firm pricing. The confidential version of the introduction provides these percentages.
- b. The public version of this introduction to **Exhibit I**, and of **Chart B to Exhibit I** does not provide the specific inflation factors that the EPC Contract has established for the two Firm with Fixed Adjustment Categories. The confidential version sets forth these factors.
- c. The public version of **Chart B to Exhibit I** does not list the specific items of equipment or cost included in the four Fixed/Firm categories of cost. The confidential version of that document lists the specific items of equipment or cost under the heading "Cost Make-up."

SCE&G intends to make the confidential version of the introduction to **Exhibit I** and of **Chart B to Exhibit I** available to parties who sign an appropriate confidentiality agreement.

4. HANDY-WHITMAN AND GDP INDICES (See Attached Chart B)

Chart B to Exhibit I provides five years of historical data for the Handy-Whitman (HW) All Steam Generation Plant, All Steam & Nuclear Generation Plant, and Transmission Plant, for the South Atlantic Region; as well as the Gross Domestic Product (GDP) inflation index. These are the indices discussed in **Chart A of Exhibit I** and used by SCE&G in preparing cost projections related to the Facility.

Cost Elements Subject to Escalation & Contingency

EPC Category	Cost Make-up*	Escalation Indices/Assumptions	Contingency Assumptions
1) Fixed with no Adjustment	Various specified plant components	<i>Fixed Price not subject to escalation under the EPC Contract.</i>	<i>Low Risk – 5%</i>
2) Firm with Fixed Adjustment A	Other specified plant components	<i>Fixed escalation of a specified percentage under the EPC Contract.</i>	<i>Low Risk – 5%</i>
3) Firm with Fixed Adjustment B	Specific Westinghouse charges	<i>Fixed adjustment of different specified percentage under the EPC Contract.</i> <ul style="list-style-type: none"> - One part of the total percentage is base escalation, and - Another part is a nuclear industry administration adjustment. 	<i>Low Risk – 5%</i>
4) Firm with Indexed Adjustment	All equipment not listed elsewhere and other costs.	<i>Adjusted periodically under the EPC Contract by the Handy-Whitman All Steam Generation Plant Index.</i>	<i>Low Risk – 5%</i>
5) Actual Craft Wages	All site craft labor.	<i>Paid at actual costs. Base estimate is escalated at Shaw/Stone Webster developed market index for target purposes. Handy-Whitman All Steam & Nuclear Generation Index used to escalate for planning purposes.</i>	<i>High Risk – 20%</i>
6) Non-Labor Target	Construction Materials, consumables, furnish & erect subcontractors.	<i>Paid at actual costs. Base estimate is escalated at a Handy-Whitman All Steam & Nuclear Generation Index for planning purposes.</i>	<i>Moderate-High Risk – 15%</i>
7) T&M	Startup and COLA and other permitting and licensing support.	<i>Paid at actual costs under the EPC Contract. Base estimate is escalated at Handy-Whitman All Steam & Nuclear Generation Index for planning purposes.</i>	<i>Moderate-High Risk – 15%</i>

Owners' Cost Category	Cost Make-up	Escalation Indices/Assumptions	Contingency Assumptions
8) Project Target Estimates	All equipment, labor, materials, insurance, overhead, etc. not covered under the EPC Contract.	<i>Paid at actual costs. Base estimate is escalated at Gross Domestic Product Chained Price Index historical average for planning purposes.</i>	<i>Moderate-High risk – 15%</i>
9) Transmission Projections	New Transmission Lines and Transmission System upgrades to support interconnection of new Nuclear units per Generator Interconnection Facilities Studies.	<i>Paid at actual costs. Base estimate is escalated at Handy-Whitman Transmission Plant Construction Index for planning purposes.</i>	<i>Moderate-High risk – 15%</i>

* Associated overheads and profits will be included in cost elements.

Exhibit I, Chart B

HW All Steam Generation Plant

<u>Year</u>	<u>Index</u>	<u>Yr/Yr change</u>	<u>Three year Average</u>	<u>Five Year Average</u>	<u>Ten Year Average</u>
2007	491	7.7%	7.0%	5.74%	4.1%
2006	456	7.5%	6.6%	4.8%	
2005	424	5.7%	4.5%	3.7%	
2004	401	6.6%	3.5%	3.6%	
2003	376	1.1%	2.0%	2.3%	
2002	372	2.8%	3.4%	2.5%	
2001	362	2.3%	2.6%		
2000	354	5.0%	2.5%		
1999	337	0.6%			
1998	335	1.8%			
1997	329				

Exhibit I, Chart B

HW All Steam + Nuclear Generation Plant

<u>Year</u>	<u>Index</u>	<u>Yr/Yr change</u>	<u>Three year Average</u>	<u>Five Year Average</u>	<u>Ten Year Average</u>
2007	490	7.7%	7.0%	5.75%	4.1%
2006	455	7.6%	6.7%	4.8%	
2005	423	5.8%	4.5%	3.7%	
2004	400	6.7%	3.5%	3.6%	
2003	375	1.1%	2.0%	2.4%	
2002	371	2.8%	3.4%	2.5%	
2001	361	2.3%	2.6%		
2000	353	5.1%	2.5%		
1999	336	0.6%			
1998	334	1.8%			
1997	328				

Exhibit I, Chart B

HW All Transmission Plant

<u>Year</u>	<u>Index</u>	<u>Yr/Yr change</u>	<u>Three year Average</u>	<u>Five Year Average</u>	<u>Ten Year Average</u>
2007	518	8.8%	8.1%	6.86%	4.5%
2006	476	9.2%	8.6%	5.3%	3.6%
2005	436	6.3%	5.4%	4.0%	
2004	410	10.2%	3.6%	4.0%	
2003	372	-0.3%	1.1%	1.6%	
2002	373	0.8%	3.4%	2.1%	
2001	370	2.8%	2.4%		
2000	360	6.5%	2.4%		
1999	338	-2.0%			
1998	345	2.7%			
1997	336				

Exhibit I, Chart B

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